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AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
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April 6, 2001

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Supervisor Zev Yaroslavsky
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FROM: J. Tyler McCauley
Auditor-Controller

SUBJECT: **AUDIT OF THE PROBATION DEPARTMENT AND THE COURT
TRUSTEE SECTION OF THE DISTRICT ATTORNEY**

Section 275 of the Welfare and Institutions Code requires the Auditor-Controller, on a biennial basis, to evaluate the adequacy of the records, controls and procedures for certain funds associated with the duties of the Probation Department and Court Trustee of the District Attorney's Office. These funds, as outlined in Section 276 of the Welfare and Institutions Code, include juvenile reimbursement, fines and restitution, donations to prevent crime, and child support. We contracted with Nuñez & Associates, Inc. to conduct this audit.

The auditors evaluated the accounting records of the Probation Department and the Court Trustee Section for fiscal years 1998-1999 and 1999-2000 and found that controls can be strengthened over cash handling and receipt accountability. In addition, the District Attorney's Office should strengthen its third-party contract administration and ensure that adequate controls are in place over child support collections.

Attached is the auditors' report, along with responses from both the Probation Department and the District Attorney's Office. Both responses indicate general agreement with the findings and corrective actions to be taken.

Please call me if you have any questions, or your staff may contact Pat McMahon at 974-0301 or DeWitt Roberts at 893-0973.

JTM:PTM:DR

Attachments

c: David E. Janssen, Chief Administrative Officer
Steve Cooley, District Attorney
Richard Shumsky, Chief Probation Officer
James A. Bascue, Presiding Judge of the Superior Court
Terry B. Friedman, Presiding Judge of the Juvenile Court
Violet Varona-Lukens, Executive Officer
Public Information Office
Audit Committee

**REPORT ON
STUDY AND EVALUATION OF
INTERNAL CONTROLS
OVER THE TRUST ACCOUNTING FUNCTIONS**

**AT THE LOS ANGELES COUNTY
PROBATION DEPARTMENT
AND THE DISTRICT ATTORNEY'S
BUREAU OF FAMILY SUPPORT OPERATIONS
FOR THE YEARS ENDED
JUNE 30, 2000 AND 1999**

**Prepared for the
LOS ANGELES COUNTY DEPARTMENT OF AUDITOR-CONTROLLER**

January, 2001

Prepared by



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REPORT ON STUDY & EVALUATION OF INTERNAL CONTROLS

To the County of Los Angeles Department of Auditor-Controller:

We performed a study and evaluation which is required by Section 275 of the California Welfare and Institutions Code to determine if the Probation Department and the District Attorney's Bureau of Family Support Operations Court Trustee Section's (DA Court Trustee Section) financial operations have been appropriately conducted and whether the departments have complied with the applicable laws and regulations, and adequately and appropriately maintained, accounted for, and disbursed trust monies as outlined in the California Welfare and Institutions Code, Section 276, to include juvenile and adult reimbursement, fines and restitutions, donations to prevent crimes, and child support during the fiscal years ended June 30, 2000 and 1999. Our study and evaluation did not constitute an audit of the Probation Department or the DA Court Trustee Section.

The management of the Probation Department and the DA Court Trustee Section is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and are recorded properly in the various reports submitted to the County of Los Angeles by the Probation Department and the DA Court Trustee Section. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Our study and evaluation of the internal control structure would not necessarily disclose all deficiencies in the internal control structure that might have occurred during the biennial period under consideration.

PROBATION DEPARTMENT

At the Probation Department, we evaluated the internal control systems relative to the following areas as they relate to the trust accounting function: cash handling at the Fiscal Services Section and at selected Probation facilities, third-party contract administration and monitoring, receipt accountability, trust accounts accounting and safekeeping, juvenile reimbursements, adult and juvenile fines collections, accountability and compliance with court orders, asset seizures and forfeitures and the implementation of prior year reviewers' recommendations.

DISTRICT ATTORNEY

At the District Attorney's Bureau of Family Support Operations (BFSO) we evaluated the internal control systems relative to the following areas as they relate to the Court Trustee Section: cash receipts and disbursements, updates and reconciliations of the ACSES Replacement System (ARS), reconciliations of the Domestic Relations Trust Fund (DRTF) to ARS, the authorization process of payments to custodial parents or guardians, accountability and compliance with court orders, contractor's handling of trust accounting functions, third-party contract administration and monitoring, and the implementation of prior year reviewers' recommendations.

CONCLUSION

As a result of our study and evaluation, we noted certain weaknesses and deficiencies involving the internal control structure and its operations. We have reported these in the Summary of Findings and Recommendations section of this report. We refer you to that section for a detailed listing of the weaknesses and deficiencies noted, the proposed corrective action for each and the status of the implementation of the prior year reviewers' recommendations.

EXECUTIVE SUMMARY

BACKGROUND

The California Welfare and Institutions Code (CWIC), Section 276, authorizes the County probation officer, or other County officers designated by the Board of Supervisors, to receive, deposit and disburse funds for a variety of reasons, such as child support, fines, restitution and donations for the prevention of crime and other similar purposes. These trust accounting functions are usually performed by each department's staff. For certain trust accounting functions, the departments may hire outside contractors to perform specific tasks.

Both the Probation Department and the District Attorney's BFSO handle large sums of money. The financial records of each department are maintained at separate central locations.

PROBATION DEPARTMENT

The Probation Department investigates and supervises adults convicted of crimes, delinquent juveniles and juveniles in need of protection. The Department also collects, deposits, and disburses monies received from gifts of money made to the County to assist in the prevention or correction of delinquency or crime, the collection of fines and restitutions from the work furlough program and from persons assigned to Probation facilities such as wards of the juvenile court or probationers under the supervision of a probation officer.

The Probation Department handles approximately \$1.3 million monthly through its post office box. The County Treasurer and Tax Collector (TTC) has a courier pickup all mail from the post office and then delivers it to the TTC. In addition, all area offices have locked boxes for probationers to leave their payments (i.e., checks and money orders) sealed in payment envelopes. The monies are forwarded to the TTC for deposit and posting. Petty cash assignments for donations are assigned to 34 facilities and range from \$50 to \$2,200.

EXECUTIVE SUMMARY

BACKGROUND (continued)

DISTRICT ATTORNEY

The Los Angeles County District Attorney (DA) is responsible for enforcing the obligation of parents to financially support their children. This is a federally mandated function that is performed by the (BFSO). The BFSO is responsible for enforcing child support obligations resulting from court orders. This responsibility involves a wide variety of functions; however, the focus of our study and evaluation was limited to the operation of the Court Trustee Section which collects and disburses monies paid for child support.

During the biennial period under evaluation, the District Attorney contracted with Lockheed Information Management Systems (Lockheed) to perform the court trustee function, which includes the collection of child support obligations from non-custodial parents or from employers who submit wage garnishments through a lockbox facility, updating the BFSO records, reconciling payment records, etc.

For the BFSO, monies are collected at two Court Trustee locations. Monthly collections for the two locations average about \$915,000. Monthly collections received through the Court Trustee's lock-box system average over \$22 million.

METHODOLOGY

Our study and evaluation was performed in accordance with Statement on Standards for Consulting Services established by the American Institute of Certified Public Accountants.

We evaluated the following areas: internal control structure policies and procedures, internal control systems, accounting control over cash receipts and disbursements; controls over receipt books, administrative controls over the automated collections systems; administrative controls over the automated payment systems; and administrative controls and monitoring over third-party contracts covering the trust accounting functions.

EXECUTIVE SUMMARY

METHODOLOGY (continued)

During the conduct of our study and evaluation, we performed the following tasks:

1. Conducted entrance conferences with key representatives of each department and the representatives from the Department of Auditor-Controller (AC).
2. Secured the names of each department's staff responsible for the trust accounting functions and conducted interviews of those individuals.
3. Read governing agreements and gained an understanding of their requirements.
4. Read the applicable sections of the County Fiscal Manual.
5. Obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation.
6. Tested a sample number of transactions to determine each department's compliance with the requirements of the County Fiscal Manual, with each department's established policies and procedures, and with the requirements of Sections 275 and 276 of the California Welfare and Institutions Code.
7. Conducted unannounced cash counts at selected locations.
8. Read the contracts between the DA and the contractors it hired to perform various trust accounting functions.
9. Evaluated each department's monitoring of the contractors' performance of the trust accounting duties assigned to them.
10. Discussed our proposed findings and recommendations with key personnel at each department.
11. Prepared drafts of the Summaries of Findings and Recommendations and submitted them to each department and to the Department of Auditor-Controller.
12. Conducted exit conferences with each department and the representatives from the Department of Auditor Controller.
13. Prepared a final report and submitted it to the Department of Auditor-Controller.

PROBATION DEPARTMENT

Cash

We evaluated the Probation Department's internal controls over the trust accounting function and performed cash counts at the Fiscal Services Section and at the following Probation facilities: Intake and Detention Control (IDC)-Victims Notification (Detention Services Bureau), Santa Monica (Adult/Juvenile Services Bureau) and Camp Paige. Our evaluation of cash management practices and cash counts disclosed the following deficiencies.

Findings:

IDC-Victims Notification

1. The Revolving Fund for Victims reflected one immaterial overage. The overage was not reported on an overage report. The Revolving Cash Fund reflected one immaterial overage that was not reported on an overage report and the employee handling it was not aware that fund overages should be reported. All overages under \$100 must be reported on an Overage Report, per the County Fiscal Manual (CFM Section 1.4.2).

Santa Monica (Adult/Juvenile Services Bureau)

2. There were four (4) \$500.00 money orders that had been in the safe since August 22, 2000. There was no indication as to their proposed purpose or any time limit. The individual responsible for the safe should be aware of both the item and its purpose for being placed in the safe. Negotiable documents should not be placed in the safe for unspecified lengths of time.

Camp Paige

3. The vending machine money had been emptied the morning of our visit and a deposit transmittal was prepared; however, the money totaling \$125 was not present in the safe, but rather had been placed in the Fund Custodian's truck. Cash and other negotiable instruments should be secured in a safe, per the County Fiscal Manual (CFM Section 1.14). Cash and other negotiable instruments should not be removed from Probation premises unless they will be taken immediately to the bank for deposit.
4. There were a large number (100's) of keys in the safe that according to the Camp's General Services Manager were unusable keys that had apparently been

in the safe for years. Safes should be inventoried every six months and purged of non-negotiable items, per the County Fiscal Manual (CFM Section 1.6.3).

Fiscal Services Section:

5. One employee has access to the Immigration and Naturalization Service money in the safe. He is not on the statement of responsibility. Responsibility for each revolving fund assignment must be vested in only one person, with an additional person assigned for emergencies. Other individuals not so designated should not be accessing the funds (CFM 1.6.3).
6. A review of 12 reconciliations of imprest-type fund accounts revealed that the bank reconciliation for the Ward's Personal money Revolving Fund for the month ended June, 2000 was not balanced to the imprest amount of \$5000.00 Each fund that is maintained on an imprest fund must be balanced to the imprest amount. (CFM Section 1.6.3).
7. The previous audit report dated September, 1999 for Fiscal Year 1997 and 1998 contained several findings and recommendations. Although the Probation Department states that the recommendations affecting the camps and other facilities were implemented, the Probation Department was unable to provide a copy of the implementing memorandum to the camps and facilities. The Budget and Fiscal Services Office should issue a memorandum to all the affected parties with implementation instructions.

Department wide:

8. One individual is fund custodian for more than one account. There should be a separate custodian for each fund assignment, per the County Fiscal Manual (CFM Section 1.6.3).

Recommendations:

IDC-Victims Notification

1. All overages under \$100 should be reported on an Overage Report. New employees should be trained prior to assigning fund-handling responsibilities to them.

Santa Monica (Adult/Juvenile Services Bureau)

2. The Probation Department should instruct this facility to submit the money orders in the same manner as all other monies.

Camp Paige

3. Probation Department funds should never be left unattended. If a fund custodian plans to take a deposit to the bank, the funds should not be removed from the Probation facility until such time as the fund custodian is going to the bank. The funds should remain with the fund custodian at all times until the funds are deposited in the bank.
4. The unusable keys should be submitted to the Fiscal Services Section for proper disposition.

Fiscal Services Section

5. Since the individual is not properly authorized, his access should be terminated immediately until the Probation Department can determine whether or not proper authorization can or should be granted.
6. The Probation Department should re-instruct its staff responsible for bank reconciliations of the importance of balancing all imprest fund accounts to the imprest amount.
7. The Probation Department should communicate to the affected facilities, via a memorandum or other evidential matter, the findings and recommendations from the internal control reports.

Department wide

8. To the extent feasible, a separate fund custodian should be established for each fund assignment.

Receipt Accountability

Department Receipt (DR) books are issued by the Fiscal Services Section to field locations in limited quantities depending on the volume of receipt usage at any particular location. New DR books are not issued until the old completed books are returned from the field location to the Fiscal Services Section. Our review of receipt management practices disclosed the following:

Finding:

9. Through inspection of used receipt books at the Fiscal Services Section, it was noted that in fiscal year ended June 30, 1999 and June 30, 2000 there were occurrences of voided receipts that were not initialed by a supervisor, which is required under CFM Section 1.3. We also noted instances of receipts not being filled out completely. This is a repeat finding.

We noted during our evaluation that out of eleven void receipts tested, nine of the voided receipts that came up in the sample came from the same facility, Scapular House. This ratio is substantially higher than that for other facilities. All of the Scapular House voided receipts were missing the supervisor's authorization and the reason they were voided.

Recommendation:

9. The Probation facilities should ensure that voided and cancelled receipts are authorized by a supervisor and are documented by the supervisor's initials.

Because it appears that there are a disproportionate number of voided receipts from one facility and all of them were missing both the supervisor's authorization and the reason they were voided, the Probation Department should investigate the issue of the excessive voided receipts at Scapular House.

Trust Accounts

The Probation Department maintains 13 separate trust accounts: 1) Collections 2) Fees Prior Year, 3) Wards Personal Monies, 4) Unclaimed Payments, 5) Adult Trust, 6) Juvenile Trust, 7) Job Training Partnership Act Trust, 8) Lock Box Payments, 9) Volunteers in Service to Others (VISTO) Donations Trust, 10) Seizure and Forfeiture, 11) Automation Trust, 12) Title IV – E Advances and 13) Work Furlough.

Money held in trust is deposited with the (TTC) and is reconciled on a monthly basis, as required by the County's Fiscal Manual (CFM Section 2.3.0). Warrants are issued for releasing money from the various trust accounts to the probationer. There is a checking account maintained for each of the VISTO Trust and the Wards Personal Money Trust accounts. These accounts are properly authorized by the Auditor-Controller and are reconciled on a monthly basis by the Fiscal Services Section of the Probation Department. We evaluated the Probation Department's internal controls over trust accounts at the Fiscal Services Section.

For reconciliations to be meaningful, they should be done within the month of the closing date so that any errors or discrepancies can be detected and corrected in a timely manner.

Finding:

10. A number of the trust reconciliations were not done in a timely manner:

| | |
|----------------------------|----------------------------|
| VISTO Gift Fund | (for the month of Nov. 98) |
| Adult Trust Fund | (for the month of Nov. 98) |
| Juvenile Trust Fund | (for the month of Nov. 99) |
| JTPA | (for the month of Nov. 99) |
| Ward's Personal Money | (for the month of Nov. 99) |
| Asset & Seizure | (for the month of Nov. 99) |
| Probation Operations | (for the month of Nov. 99) |
| Probation Fee – Prior Year | (for the month of Nov. 99) |
| Unidentified Payments | (for the month of Nov. 99) |

Recommendation:

10. The bank reconciliations should be completed within a month from the closing date, whenever possible.

Juvenile Reimbursement

When a juvenile is detained, the cost of the juvenile's incarceration is the responsibility of the parents. The parents are billed by the Probation Department for the days the juvenile was detained multiplied by the current daily reimbursement rate schedule. For those parents that have the ability to pay the costs, a court order is issued and a billing is sent to the parents.

Finding:

Out of ten transactions tested, no deficiencies were found.

Adult and Juvenile Fines

Collections of adult and juvenile fines are the responsibility of the Probation Department. The Court determines the amount of each fine to be billed and the Probation Officer in the area offices of the Probation Department instructs clerks to set up the amounts of the fines on the Adult Probation System (for adult fines). For juvenile fines, the area offices submit a financial referral to the Fiscal Services Section and the staff enters the information into the Collection Accounts Receivable System (CARS).

We evaluated the Probation Department's internal controls over adult and juvenile fines at the Fiscal Services Section. Our evaluation of adult and juvenile fines management practices disclosed the following:

Finding:

Out of ten transactions tested, no deficiencies were found

Asset Seizures and Forfeitures

The Probation Department provides one probation officer to the Southern California Drug Task Force (SCDTF) of the Drug Enforcement Administration (DEA). If a seizure is a full task force seizure, the SCDTF shares the proceeds with the other agencies participating on the SCDTF on the SCDTF. By providing one officer, the Probation Department is generally entitled to approximately 2.16% of the SCDTF portion of assets seized during illegal drug-related activities.

For full task force seizures, the Probation Department's officer can submit a "sharing request" to the SCDTF. The SCDTF imposes a time limit on the request. If the request is received after sixty days from the date of seizure, the "sharing request" is denied, unless the probation officer provides the SCDTF with written justification for the tardiness.

Finding:

Out of ten transactions tested, no deficiencies were found.

Implementation of Prior Year Evaluation Recommendations

Out of 13 prior evaluation recommendations, nine (9) were fully implemented, one (1) was partially implemented and three (3) were not implemented. It was determined after review and inquiry, that two prior year deficiency findings are repeat findings this year.

We evaluated the implementation of prior year recommendations of items that were part of the sample transactions selected for testing by performing inspections at the Fiscal Services Section, IDC-Victims Notification (Detention Services Bureau), Santa Monica (Adult/Juvenile Services Bureau), and Camp Paige (Residential Treatment Services Bureau). Additionally, we read the Department's response to the previous year's findings and recommendation, prepared by the Chief Probation Officer for the Auditor-Controller.

Prior Recommendation #7: (Not Implemented)

It was recommended that Probation Management ensure that a Quality Assurance Surveillance Plan (QASP) is developed and implemented for each contract prior

to the commencement of each contractor's work. This is a repeat finding in this evaluation.

Status of Implementation:

The department agreed in concept, but has not identified resources to address these issues.

Prior Recommendation #8: (Not Implemented)

It was recommended that the Probation Department not allow contractors or subcontractors to commence work on a contract until the staff charged with contract monitoring duties confirms in writing to Department administration staff that all applicable subcontract agreements have been reviewed and signed. Contracts should also specify monetary penalties or other consequences against contractors who use unauthorized subcontractors.

Status of Implementation:

The department agreed in concept with this recommendation, but has not identified resources to address this issue.

Prior Recommendation #12: (Partially Implemented)

It was recommended that all Probation facilities ensure that voided and cancelled receipts are authorized by a supervisor and are documented by the supervisor's initials as required by the CFM section 1.3.3.

Status of Implementation:

Although the Probation Department implemented this recommendation during fiscal year ended June 30, 1998, it is a repeat finding in this evaluation.

Prior Recommendation #15: (Not Implemented)

Due to prior deficiencies, it was recommended that the Probation Department make sure that all the applicable forms are in each probationer's file and that a supervisor review each file to ensure that each file contains all applicable documentation.

Status of Implementation:

Although the Probation Department agreed with the recommendation, it has not implemented the part relative to the supervisors' review of each case file due to staffing limitations.

DISTRICT ATTORNEY DEPARTMENT (DA)

Court Trustee/Domestic Relations Trust Accounts

The Court Trustee Section of the DA's Bureau of Family Support Operations (BFSO) serves as a trustee of the Courts for processing child support payments to custodial parents or guardians of dependent children. Payments in the form of checks, money orders, and cash are received from the payer and deposited into the Department's Domestic Relations Trust Account (DRTA). Disbursements are made through the ACSES Replacement System (ARS) in the form of County warrants issued by the Auditor-Controller. BFSO contracts with Lockheed Martin IMS (Lockheed) to handle all receipts received directly from non-custodial parents (NCP) and employers, prepare deposit permits, reconcile the Domestic Relations Trust Fund (DRTF) to ARS, and review the authorization of payments to custodial parents or guardians. Lockheed subcontracts the cash receipts processing function (the Lockbox Operation) to PRWT Services, Inc. (PRWT).

Payment Processing

Finding:

1. Checks received by the Lockbox Operation are kept in locked cabinets that are not fireproof.

Recommendation:

1. All checks should be maintained in fireproof cabinets.

Finding:

2. Wastebaskets are necessary to discard envelopes and other waste. However, they also provide an easy place for the potential disposal of checks.

Recommendation:

2. A supervisor should go through the wastebaskets at the end of each shift to ensure that no checks were discarded. Additionally, the wastebaskets should be emptied into secure containers that are disposed of or shredded offsite. This is the

system used by the TTC. It ensures that the wastebasket contents will not be available to the staff after hours.

Finding:

3. While desk drawers are now locked, there are a number of unlocked storage cabinets that are accessible to all lockbox staff during the course of the day.

Recommendation:

3. All storage cabinets should be kept locked with access only to shift supervisors.

Cashier's Office

Finding:

4. During our visit to the cashier's office at the Commonwealth location, we noted the following:
 - A. The safe at the cashier's office was unlocked.
 - B. The cashier's office at Commonwealth is on the 18th floor of the Superior Court Building. One locked door opens into a Court Support office. The cashiers must go through this office to another locked door into the cashier's office. Court Support personnel in the outer office share the computer printer located in the cashier's office. The cashier has to open the door to hand the court personnel the copy of any printed material they have generated.

Recommendations:

- 4A. The cashier should take special precaution to be sure the safe is always locked.
- 4B. Another printer should be installed in the office of the Court Support personnel so access is not required through the cashier's office. Some form of viewing mechanism should be installed in the door leading into the cashier's office and maybe some form of viewing mechanism should be installed to allow the cashiers to view any entrance into the Court Support office.

Contract Administration

Finding:

5. The BFSO Contract Administration staff monitored Lockheed's operation twice, in the months of August and September 1999, after the new monitoring procedures were implemented. Thereafter, the monitoring was to be performed quarterly. However, the monitoring procedures were suspended because the staff has been busy with other activities.

Recommendation:

5. The monitoring procedures should be reinstated and should be performed consistently by staff whose primary responsibility is monitoring 3rd party contractors, to avoid future lapses. This duty should not be subordinated to other duties.

Finding:

6. The monitoring procedures implemented are not practical because they involve monitoring large numbers of checks (200 checks per review), which is too time-consuming to be done regularly.

Recommendation:

6. The number of transactions tested should be reduced substantially and the monitoring should be performed monthly in order to detect any problems as soon as possible. If deficiencies are found, the sample can be expanded at that time. Also, some monitoring should be "after the fact" and independent of Lockheed, such as reviewing Activity Reports to test Lockheed's timeliness, etc.

Finding:

7. BFSO staff did not have copies of all contractor and subcontractor contract amendments and certificates of insurance.

Recommendation:

7. BFSO's Contract Administrator should have all contract and subcontract amendments and monitor insurance and other requirements regularly. This monitoring duty should be assigned to staff whose primary responsibility is monitoring 3rd party contracts. Said staff should use a "tickler" mechanism to remind it of upcoming insurance renewal dates and other contract clauses. This duty should not be subordinated to other duties.

Trust Reconciliation

Finding:

8. The Trust Fund account was reconciled with a “plugged number” for a period of years including the early part of the first year under review. In the later part of the period under review, the “plugged number” was greatly reduced when Accounts Receivable information was provided by BFSO to Lockheed. However, there remains unsolved approximately \$300,000 of the “plugged number” this time labeled “Reconciling Difference”. Lockheed indicated that this reconciling difference occurred when the ACSES was converted into the ARS system. This is an ongoing finding from previous years.

Recommendation:

8. The BFSO should provide further information to account for the “Reconciling Difference.” If none is found, BFSO should determine whether or not these funds can be transferred to the general fund anytime soon.

Disbursement Testing

Finding:

9. In the course of testing the child support disbursements, copies of court orders on 20 cases were requested. BFSO provided copies for 17 of the 20 cases. BFSO could not locate court order files for the remaining 3 cases.

Recommendation:

9. The BFSO should review its record keeping system and modify it, if necessary, so that in the future, all case records can be found easily on demand.

Finding:

10. In the course of testing the DPSS Retrievals and NCP Reimbursements, 8 of 10 Journal Vouchers transactions tested were not supported by a “Release Form”, a BFSO requirement.

Recommendation:

10. A “Release Form”, which nowadays, could also take the form of a “Lotus” note or a fax authorization, should support all reimbursement or disbursement arising from DPSS retrievals.

Implementation of Prior Recommendations

It was determined after inspection and inquiry that of the twenty one (21) prior recommendations, sixteen (16) were implemented, three (3) have not been implemented and two (2) are partially implemented. The items not implemented or partially implemented are disclosed below.

Prior Recommendation #3: (Not implemented)

It was recommended that the check counts be maintained and noted on a daily report by a supervisor and that it be compared with the total number of checks recorded for the day. This will serve as an additional reconciliation of the number of checks submitted to TTC.

Status of Implementation:

This recommendation will be implemented after the new imaging equipment is installed.

Prior Recommendation #4: (Not Implemented)

BFSO should install security cameras to provide additional monitoring and security over the payment processing unit (Lockbox operation).

Status of Implementation:

The BFSO Assistant Director is still evaluating this item and is waiting for further cost research. No target date for implementation has been established.

Prior Recommendation #7: (Not implemented)

Lockheed should implement a procedure whereby all checks received are input into the ARS system, or an alternate control system, daily, with proper identification and monitoring of those checks that need further research. Once those checks are properly documented and submitted to TTC for deposit, then their disposition should be noted in the ARS system as resolved and deposited by TTC, or as returned to the payer if still unresolved after five (5) days.

Status of Implementation:

Lockheed will implement this recommendation as soon as it gets a new imaging or scanning machine.

Prior Recommendation #15: (Partially implemented)

The BFSO should provide Lockheed with updated information, in order that the trust reconciliation can be prepared with the correct numbers in a timely manner.

Status of Implementation:

Information on Accounts Receivables was furnished by BFSO to Lockheed. However, there remains approximately \$300,000 in unidentified reconciling items. (See current year's finding # 8)

Prior Recommendation #18: (Partially implemented)

We recommend that the BFSO either resolve items in the "collection holds" account or return the payments to the payers within six months or less. If unable to do so, the BFSO should provide instruction to the Court Trustee to transfer the unresolved sums to the General Fund within six months or less.

Status of Implementation:

A Collection Distribution Hold Release Team (CDRT) was formed in each division to review the accounts on "Holds" with the objective of either releasing the money to the person entitled or returning them to the payer. However, the team has not been able to fully implement the recommendation as the current engagement still found 20% of tested items to be over 6 months old and unresolved. But during this biennial period substantial improvement was made by the CDRT team in clearing the "Holds" account.



RICHARD SHUMSKY
Chief Probation Officer

COUNTY OF LOS ANGELES PROBATION DEPARTMENT

9150 EAST IMPERIAL HIGHWAY, DOWNEY, CALIFORNIA 90242



March 7, 2001

TO: J. Tyler McCauley
Auditor-Controller

FROM: Richard Shumsky *RS*
Chief Probation Officer

Subject: **INTERNAL CONTROL AUDIT OF THE TRUST ACCOUNTING FOR FISCAL YEARS
ENDING JUNE 30, 1999 AND 2000**

In response to the audit of the Probation Department as required by Welfare and Institution Code Section 275, we have reviewed the findings and recommendations of the auditors, Nuñez & Associates, Inc. We agree that the audit recommendations will improve operations and enhance our internal controls.

The recommendations that we agree with are either implemented or in the process of implementation. Attached is the individual response to each recommendation.

If you have any questions or require additional information, please contact Thelma Harris at (562) 940-2593.

RS:dm

Attachment

C: Executive Leadership Committee

PROBATION DEPARTMENT AUDIT RESPONSE

NOTES TO REPORT ON STUDY AND EVALUATION OF INTERNAL CONTROLS OVER THE ACCOUNTING FUNCTIONS

Note 1: IDC-Victims Notification Finding:

The Revolving Fund for Victims reflected one immaterial overage. The overage was not reported on an overage report. The Revolving Cash Fund reflected one immaterial overage that was not reported on an overage report and the employee handling it was not aware that fund overages should be reported. All overages under \$100 must be reported on an Overage Report, per the County Fiscal Manual (CFM Section 1.4.2).

IDC-Victims Notification Recommendations:

All overages under \$100 should be reported on an Overage Report. New employees should be trained prior to assigning fund-handling responsibilities to them.

Department Response

The Probation Department agrees with this recommendation. Fiscal Services will monitor the department's compliance with this fiscal manual requirement and assist with training materials for new hires.

Note 2: Santa Monica (Adult/Juvenile Services Bureau)

There were four (4) \$500.00 money orders that had been in the safe since August 22, 2000. There was no indication as to their proposed purpose or any time limit. The individual responsible for the safe should be aware of both the item and its purpose for being placed in the safe. Negotiable documents should not be placed in the safe for unspecified lengths of time.

Santa Monica (Adult/Juvenile Services Bureau) Recommendations:

The Probation Department should instruct this facility to submit the money orders in the same manner as all other monies.

Department Response

The Probation Department agrees with this recommendation. Fiscal Services has informed area offices that probationer's money should be forwarded to the business office in a timely manner.

Note 3: Camp Paige

The vending machine money had been emptied the morning of our visit and a deposit transmittal was prepared; however, the money totaling \$125 was not present in the safe, but rather had been placed in the Fund Custodian's truck. Cash and other negotiable instruments should be secured in a safe, per the County Fiscal Manual (CFM Section 1.14). Cash and other negotiable instruments should not be removed from Probation premises unless they will be taken immediately to the bank for deposit.

Camp Paige Recommendations:

Probation Department funds should never be left unattended. If a fund custodian plans to take a deposit to the bank, the funds should not be removed from the Probation facility until such time as the fund custodian is going to the bank. The funds should remain with the fund custodian at all times until the funds are deposited in the bank.

Department Response

The Probation Department agrees with this recommendation. Fiscal Services has reissued instructions for the proper handling of funds.

Note 4: Camp Paige

There were a large number (100's) of keys in the safe that according to the Camp's General Services Manager were unusable keys that had apparently been in the safe for years. Safes should be inventoried every six months and purged of non-negotiable items, per the County Fiscal Manual (CFM Section 1.14).

Camp Paige Recommendations:

The unusable keys should be submitted to the Fiscal Services Section for proper disposition.

Department Response

The Probation Department agrees with this recommendation. Fiscal Services will notify each area office regarding the proper use of the safes.

Note 5: Fiscal Services Section:

One employee has access to the Immigration and Naturalization Service money in the safe. He is not on the statement of responsibility. Responsibility for each revolving fund assignment must be vested in only one person, with an additional person assigned for emergencies. Other individuals not so designated should not be accessing the funds (CFM 1.6.3).

Fiscal Services Section Recommendations:

Since the individual is not properly authorized, his access should be terminated immediately until the Probation Department can determine whether or not proper authorization can or should be granted.

Department Response

The Probation Department has determined since the individual is the unit supervisor and the back up, authorization has been granted and a "Statement of Responsibility" is on file.

Note 6: Fiscal Services Section

A review of 12 reconciliations of imprest-type fund accounts revealed that the bank reconciliation for the Ward's Personal money Revolving Fund for the month ended June, 2000 was not balanced to the imprest amount of \$5000.00. Each fund that is maintained on an imprest fund must be balanced to the imprest amount. (CFM Section 1.6.3).

Fiscal Services Section Recommendations:

The Probation Department should re-instruct its staff responsible for bank reconciliations of the importance of balancing all imprest fund accounts to the imprest amount.

Department Response

The Probation Department agrees with this recommendation. Fiscal Services will re-instruct its staff responsible for bank reconciliations of the importance of balancing all imprest fund accounts in compliance with the fiscal manual requirement.

Note 7: Fiscal Services Section

The previous audit report dated September 1999 for Fiscal Year 1997 and 1998 contained several findings and recommendations. Although the Probation Department states that the recommendations affecting the camps and other facilities were implemented, the Probation Department was unable to provide a copy of the implementing memorandum to the camps and facilities. The Budget and Fiscal Services Office should issue a memorandum to all the affected parties with implementation instructions.

Fiscal Services Section Recommendations:

The Probation Department should communicate to the affected facilities, via a memorandum or other evidential matter, the findings and recommendations from the internal control reports.

Department Response

On September 22, 1999, the 1996-97/1997-98 Trust Audit Report was forwarded to all applicable bureaus that had a recommendation.

Note 8: Department wide:

One individual is fund custodian for more than one account. There should be a separate custodian for each fund assignment, per the County Fiscal Manual (CFM Section 1.6.3).

Fiscal Services Section Recommendations:

To the extent feasible, a separate fund custodian should be established for each fund assignment.

Department Response

The Probation Department agrees with this recommendation. To the extent feasible, a separate fund custodian will be assigned for each fund assignment. The department does conduct surprise cash audits and Directors scrutinize funds.

Note 9: Receipt Accountability:

Through inspection of used receipt books at the Fiscal Services Section, it was noted that in fiscal year ended June 30, 1999 and June 30, 2000 there were occurrences of voided receipts that were not initialed by a supervisor, which is required under CFM Section 1.3. We also noted instances of receipts not being filled out completely. This is a repeat finding.

We noted during our evaluation that out of eleven void receipts tested, nine of the voided receipts that came up in the sample came from the same facility, Scapular House. This ratio is substantially higher than that for other facilities. All of the Scapular House voided receipts were missing the supervisor's authorization and the reason they were voided.

Fiscal Services Section Recommendations:

The Probation facilities should ensure that voided and cancelled receipts are authorized by a supervisor and are documented by the supervisor's initials.

Because it appears that there are a disproportionate number of voided receipts from one facility and all of them were missing both the supervisor's authorization and the reason they were voided, the Probation Department should investigate the issue of the excessive voided receipts at Scapular House.

Department Response

The Probation Department agrees with this recommendation. Fiscal Services will monitor the department's compliance with this fiscal manual requirement and scrutinize Scapular Houses practice of voiding receipts.

Note 10: Trust Accounts:

A number of the trust reconciliation's were not done in a timely manner:

| | |
|----------------------------|----------------------------|
| VISTO Gift Fund | (for the month of Nov. 98) |
| Adult Trust Fund | (for the month of Nov. 98) |
| Juvenile Trust Fund | (for the month of Nov. 98) |
| JTPA | (for the month of Nov. 98) |
| Ward's Personal Money | (for the month of Nov. 98) |
| Asset & Seizure | (for the month of Nov. 98) |
| Probation Operations | (for the month of Nov. 98) |
| Probation Fee – Prior year | (for the month of Nov. 98) |
| Unidentified Payments | (for the month of Nov. 98) |

Trust Accounts Recommendations:

The bank reconciliation's should be completed within a month from the closing date, whenever possible.

Department Response

The Probation Department agrees with this recommendation. Due to staff shortages, reconciliation's are done last but to the extent possible reconciliation's are completed within a month from the closing date.

Note 11: Juvenile Reimbursement:

Out of ten transactions tested, no deficiencies were found.

Note 12: Adult and Juvenile Fines:

Out of ten transactions tested, no deficiencies were found.

Note 13: Asset Seizures and Forfeitures:

Out of ten transactions tested, no deficiencies were found.

Implementation of Prior Year Evaluation Recommendations:

Prior Recommendation #7: (Not Implemented)

It was recommended that Probation Management ensure that a Quality Assurance Surveillance Plan (QASP) is developed and implemented for each contract prior to the commencement of each contractor's work. This is a repeat finding in this evaluation.

Status of Implementation:

The department agreed in concept, but has not identified resources to address these issues.

Department Response

The department agreed in concept and in fiscal year 2000-01 received budgeting approval for contract monitoring staff (i.e. fiscal, administrative and programmatic).

Prior Recommendation #8: (Not Implemented)

It was recommended that Probation Department not allow contractors or subcontractors to commence work on a contract until the staff charged with contract monitoring duties confirms in writing to Department administration staff that all applicable subcontract agreements have been reviewed and signed. Contracts should also specify monetary penalties or other consequences against contractors who use unauthorized subcontractors.

Status of Implementation:

The department agreed in concept, but has not identified resources to address these issues.

Department Response

The Probation Department agrees with this recommendation. However, the Probation Department does not have the staff to confirm subcontracting compliance unless the contractor informs the department in advance of contract commencement. As a result, Program Monitors will incorporate this finding in their programmatic review to confirm contractor's compliance with subcontracting requirements.

Prior Recommendation #12: (Partially Implemented)

It was recommended that Probation facilities ensure that voided and cancelled receipts are authorized by a supervisor and are documented by the supervisor's initials as required by the CFM section 1.3.3.

Status of Implementation:

Although the Probation Department implemented this recommendation during fiscal year ended June 30, 1998, it is a repeat finding in this evaluation.

Department Response

The Probation Department agrees with this prior year recommendation. Fiscal Services will continue to monitor the department's compliance with this fiscal manual requirement.

Prior Recommendation #15: (Not Implemented)

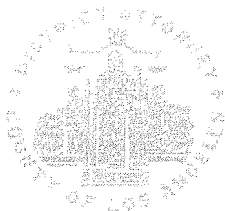
Due to prior deficiencies, it was recommended that the Probation Department make sure that all the applicable forms are in each probation's file and that a supervisor review each case file due to staffing limitations.

Status of Implementation:

Although the Probation Department agreed with this recommendation, it has not implemented the part relative to the supervisors' review of each case file due to staffing limitations.

Department Response

The Probation Department agrees with this prior year recommendation. However, due to staffing limitations, the department will review the feasibility of performing such reviews of probationer's files for completeness.



LOS ANGELES COUNTY DISTRICT ATTORNEY'S OFFICE
BUREAU OF FAMILY SUPPORT OPERATIONS

WAYNE D. DOSS • Director

March 30, 2001

J. Tyler McCauley, Auditor-Controller
525 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Dear Mr. McCauley:

**District Attorney's (BFSO) Response
Court Trustee/Domestic Relations Trust Account Audit**

This letter provides our response to the recommendations of the Nunez Audit of the Court Trustee/Domestic Relations Trust Accounts. The responses to each of the ten recommendations are set forth below.

Payment Processing

The Department agrees with the suggestions for improvement of payment processing.

Recommendation 1

The Department agrees that the cabinets where checks are kept are not fireproof and will change the cabinets to meet fireproof standards.

Recommendation 2

The Department agrees that wastebaskets are used to discard envelopes and other waste and pose a potential for the disposal of checks and will implement procedures for minimizing the potential for disposal of checks. Further, the Department agrees that secure confidential destruction containers should be used in the lockbox area.

Recommendation 3

The Department agrees that there are cabinets accessible to lockbox staff during the course of the day that should be kept locked with access available only to shift supervisors and will institute the necessary corrective actions.

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Cashier's Office

The Department agrees with the suggestions for improvement of the cashier's office at Central Civil West.

Recommendation 4A

The Department agrees that additional security measures should be implemented at the cashier's office located on the 18th floor of the Central Civil West Court. The Department will implement procedures that call for the safe to be locked when not specifically being accessed.

Recommendation 4B

The Department agrees that an additional print server should be located on the 18th floor of the Central Civil West Court to remove the need for sharing a printer with the Bureau personnel and the Court Trustee personnel. Additional reviews of ways to increase security within the Court Trustee cashier's office at Central Civil West will be undertaken.

Contract Administration

The Department agrees that additional monitoring of contracts is essential.

Recommendation 5

The Department concurs with reinstating regular monitoring of the Court Trustee Contract and will implement new procedures consistent with the Audit recommendations.

Recommendation 6

The Department agrees with a more streamlined and practical monitoring of the Court Trustee Contract and will implement new procedures consistent with the Audit Recommendations.

Recommendation 7

The Department agrees that the Contract Administrator should review and maintain current contract and subcontract amendments and monitor the compliance of insurance and other requirements regularly.

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Trust Reconciliation

The Department agrees with the recommendation for the reconciliation of the trust account.

Recommendation 8

Procedures have been implemented which allow for greater reconciliation of accounts without the use of a "plugged number" resulting in differences which occurred when the ACSES was converted into the ARS system. As of December 31, 2000, the reconciling difference was reduced to \$117,744.16 from approximately \$300,000.00. The ARS team is in the process of evaluating various financial reports that can explain or eliminate any reconciling differences on a daily basis. Any unresolved items will be transferred to the General fund after all reasonable research and reconciliation has been exhausted.

Disbursement Testing

The Department concurs with the findings and recommendations regarding disbursement testing.

Recommendation 9

The Department will review its record keeping method to ensure that copies of all court orders are located within a timely manner.

Recommendation 10

The Department concurs with finding number 10. However, the BFSO requirement for a "Release Form" may be somewhat out of date with modern equipment and electronic communication capabilities. The Department will review the current method of disbursement and take steps to implement a process that ensures adequate audit trails exist.

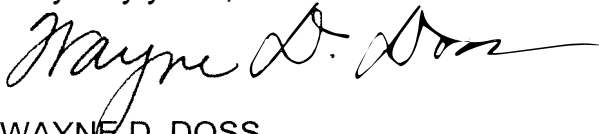
Implementation of Prior Recommendations

The Department concurs with the findings as to the status of the prior recommendations not yet implemented. More specifically, two of three prior recommendations not implemented require new imaging equipment not yet

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approved for the Department. It must be noted that purchases of this nature now require state and county approval. The third recommendation not implemented requires purchases of security cameras for monitoring and securing the lockbox operation. This item is being researched.

Very truly yours,

A handwritten signature in black ink, appearing to read "Wayne D. Doss", with a long, sweeping horizontal stroke extending to the right.

WAYNE D. DOSS
Director

dsm